Virtual Currencies
Bitcoin, Ethereum, Ripple & Co from the perspective of investor protection

Currently there is a boom on the Internet for offers for digital instruments of exchange and payment, for which terms like "digital currency", "alternative currency" or "cryptocurrency" are used. The most frequently used term is "virtual currency". Currently there are already more than 200 different virtual currencies offered, with the best known examples being Bitcoin, Ethereum, Ripple or Litecoin.

Virtual currencies should not be allowed to be confused with traditional currencies issued by central banks, since they are as a rule generated, managed and transferred exclusively using a mathematical computer-based procedure. They are not backed by a central bank, an authority or a financially strong institution, that is able to guarantee that a claim to a benefit is met. Virtual currencies are neither legal tender payment instruments, nor do they constitute tradable foreign currencies. It is not compulsory to accept them, and to date they have only rarely been accepted as a means of payment.

Virtual currencies and the systems behind them are neither subject to regulation nor to supervision by the FMA under the current legislation. Business models that make use of virtual currencies may require a licence to be held in accordance with the legal regulations that have been entrusted to the FMA for enforcement.

See also: https://www.fma.gv.at/en/cross-sectoral-topics/fintech/fintech-navigator/

Purchasing virtual currencies is a highly speculative and very risky business. In this FMA Focus, we explain the risks that are typically associated with the use of virtual currencies, using Bitcoin as an example.

Virtual currencies are subject to strong exchange rate fluctuations

Conventional currencies are mainly issued by a government-run central bank, the objective of which is generally to ensure monetary stability and pricing stability. Such organisations therefore intervene in the event of exchange rate fluctuations becoming too large, in order to ensure that the most stable possible conditions are maintained for exchanging currencies against goods and other currencies.
This is not the case with virtual currencies. The value of digital money remains unsecured and is determined purely by supply and demand. Consequently virtual currencies are subject to strong fluctuations. Such drastic exchange rate fluctuations make virtual currencies speculative instruments, while harbouring the risk of loss of value and also undermining their usability as means of payment.

Recently the value of Bitcoin, for example, has increased very strongly. Strong demand, driven by the expectation that the value will increase further, may however lead to the emergence of a speculation bubble. As soon as no-one is no longer willing to pay a speculatively high price, the bubble bursts, and the exchange rate collapses completely. Those that were last to invest sustain the largest losses - in the worst case scenario incurring a total loss.

Trading platforms are not regulated and are not subject to supervision

Trading platforms for virtual currencies are currently not subject to any form of supervision by an authority. Such platforms are not banks, and the consumer protection regulations that apply under banking law therefore do not apply to virtual currencies, and are therefore also not protected by a deposit guarantee scheme.

A trading platform may be closed down at any time, and some platforms have already ceased trading. When a trading platform is shut down, e.g. by prohibiting the buying and selling and trading of virtual currencies, no form of legal or investor protection exists. You could lose your entire invested assets. In such a case, there is no central operator that is liable for the arising damages.

IT Risk

There are also no legal stipulated minimum IT standards or security regulations in relation to the respective software used. This creates various risks, such as losses arising from hacker attacks, software errors, or data loss.

Digital "wallets" are stored on computers, laptops and smartphones and are therefore also vulnerable to attack by hackers. Data is not stored centrally, and in the event that you lose the key for your digital wallet, there is no way of being able to access the wallet. There are also no contact persons available to handle complaints or enquiries or to provide assistance.
No special legal protection when using virtual currencies

Unauthorised or incorrect transactions cannot be reversed, and there is also no responsible contact person for a refund. The acceptance of virtual currencies like Bitcoin as a form of payment is not guaranteed, and therefore remains at the full discretion of the respective contractual partner. There is no legal provision that obliges someone to accept Bitcoin as a means of payment or that authorises someone to convert Bitcoins into real currencies. There is no guarantee of the permanent existence of individual virtual currencies as a digital means for exchange and payment.

The systems are very susceptible to criminal abuse due to the anonymity of users

Since transactions are barely traceable and both the recipient and sender remain anonymous, transactions using virtual money may easily be exploited for the financing of criminal acts; such as money laundering, drug dealing or child pornography. As virtual currencies are neither regulated nor subject to supervision and legal prosecution and enforcement is very difficult over the Internet, such types of system are very vulnerable to being misused for criminal purposes.

The European Banking Authority (EBA) has therefore already published consumer warnings about virtual currencies:

http://www.eba.europa.eu/-/eba-warns-consumers-on-virtual-currencies (link to an external page – opens in a new browser window.)

http://www.eba.europa.eu/-/eba-proposes-potential-regulatory-regime-for-virtual-currencies-but-also-advises-that-financial-institutions-should-not-buy-hold-or-sell-them-whilest-n (link to an external page - opens in a new browser window).